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BRIDGING THE INFORMATION ASYMMETRY: THE ROLE OF ACCOUNTING EVIDENCE IN ARTICLE 26 INCOME TAX DISPUTES FOR THE PERIOD 2021–2024

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Abstract

This study investigates Article 26 income tax disputes involving income characterization and the reasoning of judges in tax court decisions between 2021 and 2024 through the qualitative content analysis of 63 decisions. The disputes focused mainly on appeals (60) with the tax court overcoming the tax authority's defenses and characterizations in 48 decisions. Through agency theory, judges control the level of accounting evidence and prefer to adopt the substance over the form principle despite the administrative constraints. Furthermore, the principle is tested when the tax authority loses the dispute due to the lack of substance in the economic transactions rather than the lack of accounting transactions. The results also show that the quality of accounting evidence, the tax documentation synchronization, and the accounting evidences alignment impact cross-border legal certainty. Nevertheless, this study only deals with the 2021-2024 Tax Court decisions and uses documentary evidence. It does not incorporate the evidence of judges, tax administrators, or taxpayers. There is a need to strengthen financial statement disclosures (PSAK 1), reinforce the benefit test, and improve the alignment of accounting narratives and fiscal evidence. This will maintain fairness and transparency and provide greater protection of taxpayers in international tax disputes.

Keywords *: Accounting Evidence; Article 26 Income Tax; Substance Over Form; Tax Disputes.*

JEL Classification : H25, K34, M41

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1. INTRODUCTION

The framing of taxes by source countries on cross-border dealings is a product of the countries' authorities and aims to protect the country's tax system from profit shifting to low-tax countries (Alpany et al., 2025; Cao et al., 2026a). In an unpredictable world economy, a country can utilize cross-border dealings as a source of revenue, preserve the value of its currency, and reduce exposure to adverse effects on the economy (Yang et al., 2025). Intra-company cross-border dealings account for over sixty percent of global trade, which unnecessarily complicates tax administration and generates disagreements over the classification of income in different countries (Yang et al., 2025). This issue is connected to the manipulation of pricing by firms to transfer profits to low-tax countries (Immaculata et al., 2024).

As it pertains to cross-border transactions, Indonesia's Law No. 36 (2008) on Income Tax (amended by Law No. 7 of 2021 on the Harmonization of Tax Regulations) provides, under its Article 26, that foreign income that does not arise from a foreign taxpayer's permanent establishment will be subject to a 20% gross income tax. This again is unless a DTA applies. This provision is especially critical in the context of aggressive tax avoidance strategies. The article's effectiveness is strengthened by income characterization under tax treaties, as it reduces the extent of aggressive tax avoidance practices and the consequence of double non-taxation. For tax treaties, income characterization becomes necessary to establish which country has the exclusive right to tax the income earned. In this regard, notably characterization will be necessary to differentiate between the income from business profit, service income, and royalties, each of which will invoke a different right to tax.

Disagreements with regard to royalties and technical service fees bring about Article 26 Income Tax disputes with the Directorate General of Taxes (DGT) stemming from differences in the interpretation of income and disparity in categorization of income (Alpany et al., 2025; Tambunan, 2022). According to Darussalam & Septriadi, (2017), if the composition of the transaction is in the form of royalty, the source country, for instance, Indonesia, would only have limited taxing rights via withholding to the tax treaty rate (between 10%–15%). On the other hand, if it is understood to be service fees within the ambit of business profits, Indonesia would have no taxing rights in the absence of a PE (permanent establishment) of the foreign taxpayer. These interpretative issues intensify fiscal disturbances from disputes regarding the implementation of the Arm's Length Principle (Uswatul Khasanah, 2024), and escalation of disputes of this nature toward appeal litigation to the Tax Court (Ningtias et al., 2022).

According to the DDTC tax dispute dataset from 2021-2024, there were 63 reported decisions. These decisions are classified as appeals or lawsuits that were fully granted, partially granted, or denied. Tax Court litigation illustrates the difficulty of establishing legal certainty and the protection of the taxpayer in light of the increasing strictness of tax compliance (Petkova et al., 2025). Income disputes are inextricably linked to the conflicting interests and information asymmetries of taxpayers and tax authorities, which can be described using Agency Theory (Roggeman et al., 2025). The taxpayer (agent) has a greater information advantage about the economic reality of a transaction, whereas the tax authorities (principal) view the transaction through the lens of the tax regulations (Cao et al., 2026b; Sianturi et al., 2025). As the economic and legal perspectives diverge, so will the interpretation of the tax law, and, given the information asymmetry, the level of conflict will be heightened (Rasyid et al., 2026).

Accounting analysis, such as appraisal of tooling costs and compliance with Financial Accounting Standards (PSAK), is an important evidentiary tool for determining the economic substance of a transaction (Naufal et al., 2023). The substance over form principle is also important in this context as it requires tax treatment to be consistent with economic reality, not the contractual form. This depends on adequate accounting evidence, which includes financial statements, transfer pricing, and Functions, Assets, and Risks (FAR) analysis (Dahlan, 2024; Petruzzi & Myzihthra, 2013). In the Tax Court, the judges rely on PSAK-based financial statements to determine if the transaction has economic substance or is a contractual fiction. Accounting evidence is necessary to support the objective application of the substance over form principle in court (Auliya & Rosid, 2024; Naufal et al., 2023).

West & Wilkinson. (2024) indicates a gap in accounting research on tax treaties and tax disputes, even where accounting evidence and judgment are likely to play a significant role in judicial consideration. The gap is evident in the wider development of taxation research in Indonesia. Rasyid et al. (2024) note that the bulk of the research in Indonesia is on tax avoidance, tax compliance, tax aggressiveness, and tax evasion. Presently, the bulk of research in Indonesia is on transfer pricing and some cost accounting studies (Naufal et al., 2023). This research aims to address this gap by a detailed analysis of the Tax Court from 2021 to 2024. This research attempts to show how judges assess accounting evidence and the economic substance of cases that determine the differentiation of royalties and service fees under Article 26 of the Income Tax. This research aims to demonstrate the value of accounting evidence in cross-border tax disputes to the academic and professional communities, as well as to tax authorities and policymakers. The research is expected to enhance the quality of disclosures in financial statements, the alignment of tax with accounting standards, and the “benefit test” to strengthen legal certainty and taxpayer safeguards in the globalization era.

2. LITERATURE REVIEW

Agency Theory and Information Asymmetry

Tax disputes can be understood through Agency Theory. The relationship between taxpayers and tax authorities involves unequal access to information. In a self-assessment system, taxpayers report their tax figures based on their business activities, while tax authorities monitor compliance with regulations. In this setup, taxpayers act as agents with private knowledge about their transactions, while tax authorities are principals responsible for enforcing compliance (Alghamdi et al., 2024; Kohlhase & Wielhouwer, 2023). This creates a common situation where information asymmetry leads to tax controversies. Authorities mainly depend on filed documents, while taxpayers have direct insight into their actual business operations (Cao et al., 2026; Sianturi et al., 2025). To reduce audit risks, some opportunistic taxpayers may take advantage of this knowledge by using vague language in official filings or creating non-arm's-length transfer pricing arrangements (Alghamdi et al., 2024; Lei et al., 2025).

Besides the differences in transactional information, tax disputes often arise from different legal interpretations. Although tax administrations usually have a better understanding of tax codes, corporate taxpayers often have a better understanding of the business reasons behind their activities. Since tax rules for complex cross-border transactions can be interpreted in various ways, both sides can legitimately reach different conclusions about the same arrangement (Rasyid et al., 2026). Therefore, while the primary source of disagreement stems from unequal access to economic information, the secondary source results from contrasting interpretations of tax laws. In the end, these differences drive taxpayers to seek legal certainty through Tax Court litigation or by engaging in cooperative compliance models to resolve disputes and build better relationships (De Widt & Oats, 2024; Petkova et al., 2025).

International Taxation and Income Characterization

Taxing source countries on cross-border transactions represents a core aspect of the exercise of state sovereignty and protecting the self-interests of the domestic tax base against profit relocation to tax havens (Alpany et al., 2025; Cao et al., 2026a). In Indonesia, this is regulated in Article 26 of the Income Tax Law, whose last amendment is Law Number 7 of 2021 (UU HPP). The effectiveness of Article 26 of the Income Tax is highly dependent on the income classification in Double Taxation Avoidance Agreements (DTAA). Correct classification is important to prohibit double non-taxation and limit anti-tax behavior that is actively exploiting the legal and regulatory gaps (OECD, 2017; Sitkiewicz & Białek-Jaworska, 2024).

The Principle of Substance Over Form and Accounting Evidence

Generally, conflicts emerge because there is disagreement about how taxpayers and authorities should differentiate royalties, service fees, and business income, which each have their own tax implications. According to the substance over form principle, the tax treatment must reflect the true underlying reality of an economic event rather than the appearance of a contractual arrangement (Dahlan, 2024). In the context of juridical proceedings, accounting evidence that is based on the Financial Accounting Standards (PSAK) is an essential tool for judges to establish what the substance of a transaction is. Different forms of sophisticated accounting data such as financial statements, transfer price documentation, and Functions, Assets, and Risks (FAR) analysis provide an objective ground to apply the substance over form principle (Auliya & Rosid, 2024; Naufal et al., 2023). Hence, accounting adjudication is not a mere formality, but a substantive requirement to address characterization disputes of an international tax litigation nature (Petruzzi & Myzihthra, 2013) .

Previous Studies and Research Gap

Previous studies have focused on different dimensions of cross-border taxation. Tambunan, (2022) has noted disputes related to Article 26 arise as a result of interpretive gaps concerning royalties as well as the Arm's Length Principle. Naufal et al. (2023) have likewise noted, through certain case studies on technical costs, the significant role accounting evidence plays. Nevertheless, West and Wilkinson (2024) maintain the consequences of tax treaty disputes have drawn little, if any, accounting research.

The studies conducted in Indonesia have mostly concentrated on transfer pricing audits (Auliya & Rosid, 2024) or have focused on general legal comments. There has been a lack of research on a thorough study of the trend of Tax Court decisions for the important transitional years of 2021 – 2024. The majority of studies have focused on singular case studies or have been on broad theoretical issues. This study has focused on addressing this gap. The study has used qualitative methods and mapped 63 Tax Court Decisions to determine how the evaluative reasoning of judges and the judicial review of accounting evidence have developed subsequent to the passage of the UU HPP. This study integrates accounting and legal reasoning to present a comprehensive study of the issues, which has been significantly lacking in the field of tax research in Indonesia. The study aims to provide practical recommendations and enhance legal certainty for stakeholders, including tax administrators and policymakers.

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Benefical Ownership

Beneficial Ownership (BO) is an autonomous concept in international tax treaties that determines entitlement to treaty benefits based on the true legal ownership of income rather than formal intermediary arrangements (Kuźniacki, 2024). The concept ensures that reduced withholding tax rates are granted only to the person who has the legal right to enjoy and control the income, thereby preventing treaty benefits from being claimed through conduit entities or artificial ownership structures. In practice, multinational enterprises often employ complex ownership arrangements, such as Special Purpose Entities (SPEs), which increase the difficulty of identifying the ultimate beneficial owner and require careful legal and documentary assessment by tax authorities (Nguyen & Cooper, 2026).

In global practice, establishing BO transparency faces severe operational limitations and institutional resistance, particularly through the deployment of complex corporate vehicles like Special Purpose Entities (SPEs) and shell companies (Konovalova et al., 2023). In practice, international transparency regimes rarely achieve total openness; instead, they create a "translucent" environment characterized by incomplete visibility, driven by restrictive disclosure thresholds, privacy challenges, and superficial adherence to reporting forms (Ejiogu et al., 2025). Consequently, while global initiatives such as the Automatic Exchange of Information (AEoI) increase the perceived risk of detection and encourage voluntary disclosures (Baselgia, 2026), MNEs frequently adapt by rerouting capital through multi-layered SPE structures or non-covered asset classes to maintain operational anonymity (Nguyen & Cooper, 2026).

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3. METHODOLOGY

Research Design

A qualitative methodology is used in this study for a systematic examination of the income characterization disputes in cross-border transactions in the Tax Court. This methodology is used to gain a deeper understanding of the patterns of legal arguments and the various forms of judicial and agency theory in the context of international litigation and the provisions of Article 26 of the Income Tax and Tax Treaty regarding international taxation.

Data Sources and Triangulation

Tax Court decisions in this study are sourced from the DDTC Tax Engine and the official website of the Indonesian Tax Court. The use of multiple databases is a form of data triangulation. The analysis is on the years 2021 to 2024 to capture recent developments in law following the implementation by Indonesia of the Base Erosion and Profit Shifting (BEPS) and the Multilateral Instrument (MLI).

Samples were selected based on an Article 26 Income Tax cross-search and outcomes (amar putusan) in the Tax Court of Indonesia of Fully Granted (Mengabulkan Seluruhnya), Partially Granted (Mengabulkan Sebagian), and Rejected (Menolak) cases, among others. The justifications for this particular selection and outcome focus are as follows:

1. Substantive Legal Reasoning: Outcomes in this category supply a complete ratio decidendi and are the source of detailed legal and economic reasoning essential to this study.
2. Exclusion of Administrative Rulings: Purely administrative rulings are excluded, including rulings concerned with formal objections or procedural dismissals. They do not typically contain any meaningful discussion of administrative law or the application of the substance over form doctrine.
3. Conflict Representation: These categories encompass substantive disputes between the taxpayer and the tax authorities and allow the researcher to focus on the judges' methods for resolving the interpretative gap between the two parties.

Data Analysis Technique

The primary data for this study come from Indonesian Tax Court decisions. These were obtained through a systematic multi-stage filtering process based on the following criteria:

1. Rulings were filtered to cover the period from January 2021 to December 2024. This timeframe captures developments following UU HPP and BEPS.
2. The dispute category focused on Article 26 Income Tax (PPh Pasal 26), which includes both transfer pricing and non-transfer pricing cases involving royalties and technical services.
3. Decisions were chosen based on significant judicial outcomes (amar putusan). These include Fully Granted (Mengabulkan Seluruhnya), Partially Granted (Mengabulkan Sebagian), and Rejected (Menolak). The selection excluded purely administrative dismissals and procedural objections.

The data underwent a thematic content analysis. The focus is on the judge's legal consideration, analyzed through Agency Theory, and is articulated along three dimensions:

1. The data were analyzed using thematic content analysis to interpret the judges' legal reasoning and their consideration of accounting evidence through the lens of Agency Theory. The analysis followed four structured steps.
2. A total of 63 Tax Court decisions were collected based on the predefined sampling criteria and organized into separate folders according to the year (2021–2024) and judicial outcome.
3. A detailed extraction matrix was developed in a spreadsheet to code the key elements of each case, including transaction types, affiliation status, the arguments of both the tax authority and the taxpayer, submitted accounting evidence, accounting treatments, and the judges' legal considerations.
4. The extracted qualitative data were coded according to three Agency Theory dimensions: Control and Independence, Information Asymmetry, and Economic Substance, including Beneficial Ownership and Conduit Entity determinations.
5. The coded themes were synthesized across all cases to identify recurring judicial patterns and examine how accounting evidence influences the resolution of Article 26 tax disputes.

4. RESULT AND DISCUSSION

Dynamics and Typology of Article 26 Income Tax Disputes

In examining disputes over Article 26 Income Tax between 2021 and 2024, it appears that most of the legal appeals were made by means of an appeal to the Tax Court (Banding), with 60 sample cases noted. In contrast, lawsuits (Gugatan) and judicial reviews (Peninjauan Kembali) were less frequent, as evidenced by Table 1. This illustrates that for disputes concerning Article 26, the appeal mechanism for taxpayers and the tax authority is the primary means of resolving the dispute.

Table 1
Number of Decisions by Legal Recourse (2021–2024)

Year	Appeal (Banding)	Lawsuit (Gugatan)	Judicial Review (PK)	Total
2021	26	1	0	27
2022	31	0	1	32
2023	0	0	1	1
2024	3	0	0	3
Total	60	1	2	63

Source : Data processed from Tax Court and Supreme Court Decisions (2026)

Decision volumes peaked during 2021- 2022 before sharply declining in 2023 - 2024. This trend was driven by a mix of court operational suspensions, major legislative changes, and international tax compliance factors. First, in-person court hearings were repeatedly suspended throughout 2020 and 2021 due to COVID-19 health restrictions detailed in various Tax Court Circular Letters, including SE-01/PP/2020, SE-03/PP/2021, and SE-14/PP/2021. As a result, disputes from the 2018 and 2019 tax years faced significant delays. Second, when court operations resumed in late 2021 and 2022, the Tax Court worked hard to clear these accumulated 2018 and 2019 backlogs before fully enforcing reforms under Law No. 7 of 2021 on the Harmonization of Tax Regulations (UU HPP) and transitioning to digital litigation under PER-1/PP/2023 (e-Tax Court). Once this backlog was cleared, published decision volumes naturally returned to normal in 2023 and 2024.

Furthermore, this time frame aligns with increased international tax scrutiny following the global rollout of Base Erosion and Profit Shifting (BEPS) control measures. Even though decision volumes dropped after 2022, cross-border disputes remain very complex as practitioners deal with changing rules. Recent international tax developments, like BEPS 2.0 and Pillar Two (Global Minimum Tax), further emphasize this complexity. These have been integrated into the Indonesian legal framework through Minister of Finance Regulation (PMK) No. 136 of 2024.

As seen in Table 2, taxpayer bias in judicial outcomes has become the established norm. Out of 63 cases, 48 (76%) were fully accepted, and only 10 (21%) were rejected. The remaining cases with the highest percentage of fully accepted decisions suggest that the tax authority's attempts to make fiscal corrections were often unsuccessful in the courts, likely due to the lack of adequate support for the corrections or a lack of support for the tax authority's characterization of the income. The Judges' Panel likely favors the economic reality of a situation over the formalities and details of a contract, which is a logical extension of the substance over form doctrine.

Table 2
Summary of Tax Court Decisions Outcomes (2021-2024)

Outcome	Appeal	Lawsuit	Judicial Review	Percentage
Fully Granted	48	0	0	76%
Partially Granted	2	0	0	3%
Rejected	10	1	2	21%
Cancelled	0	0	0	0%

Source : Data processed from Tax Court and Supreme Court Decisions (2026)

When examining the paired dispute cases, it becomes clear that judicial consistency relies heavily on the depth of substantive factual review (*uji materiil*). Although Tax Treaties (DTAA) establish the governing legal framework, the ultimate judicial outcome hinges on the alignment between accounting data and the adequacy of fiscal documentation.

Table 3
Typology and Judicial Outcomes of Selected Article 26 Income Tax Disputes (2021–2024)

Case	Dispute Typology	Judicial Outcome
PUT-001882.35/2019/PP/M.XB (PT BSP)	Recharacterization of loan interest rate and SKD treaty entitlement	Fully Granted
PUT-013094/2021/M.IA(PT American Standard)	Intra-group management services and administrative tax return compliance	Rejected
PUT-002169/2022/M.XIB (PT Media Kreasindo Utama)	Management service substance and intra-group service agreement verification	Fully Granted
PUT-004775/2021/M.VIIIA (PT Soci Mas)	Technical service fees and missing DGT-1/SKD documentation	Rejected
PUT-001070/2022/M.XIIA (PT Damco Trucking)	Logistics service documentation and valid foreign residency evidence	Fully Granted
308/B/PK/PJK/2023 (PT Enerflex)	Recharacterization of management services to disguised dividends	Rejected (Fiskus Upheld)
PUT-004235/2024/M.XVA (PT Cisco Technologies)	Operational service characterization verified via segmented P&L reports	Fully Granted
PUT-003729/2021/M.IA (PT Pan Pacific Dev.)	Royalty contract formality vs. lack of economic benefit proof	Rejected
PUT-002294/2022/M.XA (PT Toyo Denso Indonesia)	Royalty treaty benefits and proof of patent application in manufacturing	Fully Granted
1943/B/PK/PJK/2022 (PT Freeport Indonesia)	Loan interest recharacterization to dividend without sufficient justification	Rejected (Fiskus Upheld)
PUT-000042/2024/M.VA (PT Covestro Polymers)	Low value-adding services and verification of real business costs	Fully Granted

Source : Data processed from Tax Court and Supreme Court Decisions (2026)

Based on the findings, we can conclude that the interpretation of treaties does not determine legal certainty in several jurisdictions. It is largely determined by the quality of the evidence. Divergent results, be it acceptance or rejection, are founded on the taxpayer’s capacity to present congruence between accounting data and tax documentation. Certainty is likely to be granted when financial statements provide a clear and logical depiction of the economic transactions.

These results also have considerable implications for businesses and tax advisors. Certainty is not based on the existence of inter-state treaties, but the quality of financial reporting. Financial reporting needs to be honest and meticulous, aligned with the supporting business documents and evidence, and adequate and relevant documents. This is the only way to ensure that every financial transaction can be verified when subjected to legal scrutiny.

Judicial Reasoning in the Perspective of Agency Theory

Considering Agency Theory, taxpayers are agents, while tax authorities are principals, and there is a persistent information asymmetry between them. Taxpayers are more knowledgeable and have more control over financial data, while tax authorities lack access to full disclosure. Judges serve as a neutral third party to alleviate the distortions caused by the asymmetric worldview of the taxpayers and tax authorities. In tax litigation, judges act as an independent monitoring system. They help address the conflict of interest and unequal information between the principal, which are tax authorities, and the agent, who are taxpayers (Jensen & Meckling, 1976). Instead of just checking for administrative compliance, judges review the connections among contracts, financial records, payment slips, and supporting documents. This helps reveal the actual economic nature of transactions (Hanlon & Heitzman, 2010). Through this detailed examination, the court decides if the agent's tax treatment shows opportunistic avoidance or legitimate business activities.

Decision No. PUT-005173.13/2020/PP/M.IB (PT AB) pertained to the evaluation of service attributes and the distribution of profit. This case revolved around a fiscal adjustment of IDR 12,168,167,390. Here, the tax authority identified the expense as concealed dividends, but the taxpayer documented it as technical services and commission. Relying on the substance over form doctrine, the judges established the coherence of the service agreements, invoices, and financial statements, to the best of their ability, in the absence of a Shareholders' Meeting (RUPS). The absence of a RUPS was also significant in confirming that the transaction was operational expenses and not the distribution of dividends. In Decision No. PUT-013089.35/2019/PP/M.IA (PT ASI), the case involved business profits of IDR 1,779,957,120, which were generated due to different views on management services. The judges, in this case, verified the existence of a Permanent Establishment (PE) through the evaluation of contracts and transaction evidence and concluded that the business profit claim was valid, and the tax was the right of the resident country, based on the Indonesia–Singapore DTA.

Agency problems arise when parties attempt to use formal contracts to distort the tax treatment of a transaction. Judges are required to implement the substance over form principle. This principle dictates that a tax court should disregard formal characterization of the transaction, and instead determine the tax treatment based on the economic reality of the transaction. Decision Number PUT-007962.99/2020/PP/M.IB (PT N) involved recharacterization of services as reimbursements. The case had a value of IDR 1,633,872,408 and was related to the employees of a Malaysian parent company. The tax authority contended that the expenses pertained to management services and therefore triggered Article 26 withholding tax. Judges analyzed debit notes and vouchers, and determined that the reimbursement of salary expenses was the economic substance of the transaction, and therefore was not subject to withholding tax.

Decision Number PUT-007293.13/2019/PP/M.XB (PT KAL) addressed the issue of loan interest that was paid to shareholders in Hong Kong. The amount involved was IDR 71,418,750. In this case, the judiciary emphasized the nature of the loan relationship to determine if the transaction satisfied the elements of a bona fide loan. This shows that the assessment was based on the economic substance of the transaction, and not solely on the formal accounting treatment.

In all four cases, the judiciary emphasized the agency theory supervisory function. This showed that closely integrated accounting evidence and economic substance (audit reports, debit notes, and financial statements) are essential to reduce agency risks. An approach to formal contracts that prioritizes the economic substance of the transaction over the contracts themselves (when applicable) improves the legal certainty and equity of taxation. This perspective positions judges as mediators who ensure that tax obligations are implemented in alignment with the underlying economic reality.

Evaluation of Accounting Evidence and Projection of Financial Reporting Standards Implementation

This part assesses the role of accounting evidence in Article 26 Income Tax cases and the influence of advanced financial reporting standards. The outcome of rejections and partial acceptances creates a framework for analyzing the gaps in taxpayers' evidentiary processes in tax litigations. The analysis of 60 decisions revealed that the primary reason taxpayers were unable to substantiate their claims was the lack of accounting narratives demonstrating the economic substance of transactions. The Judges were unable to detect the economic substance of the transactions. The lack of narrative led to the financial statements being unable to resolve the information imbalance. The failure to provide evidence to overcome the information imbalance displayed three distinct patterns. The evidentiary failures and outcomes of the cases were consolidated in the following table for ease of reference.

Table 4
Accounting Evidence vs Judicial Outcome

Case Number	Subject	Outcome	Primary Evidentiary Failure
PUT-007293.13/2019 (PT KAL)	Loan Interest	Rejected	Failure to explain economic purpose in Financial Statements.
PUT-013091.35/2019 (PT ASI)	Management Services	Rejected	Failed the Benefit Test; overly general Notes to Financial Statements (CALK).
PUT-010028.13/2019 (PT U - LCW)	Management Services	Rejected	Lack of detail on cost allocation and economic contribution.
PUT-013088.35/2019 (PT ASI)	Inter-group Trans.	Partially Accepted	Information gap; incoherent narrative in financial reporting.

Source : Author's own compilation from Tax Court rulings, (2026)

1. Loan characterization disputes: For example, Decision No. PUT-007293.13/2019/PP/M.XB (PT KAL) Case 1 was rejected as the taxpayer was unable to demonstrate the economic substance of the loan. Even though evidence such as loan agreements, payment records, and interest incurrence were submitted, the financial statements failed to demonstrate the economic purpose and related party connection of the loan. Accordingly, the substance of the loan was deemed inadequate to support the taxpayer's claim.
2. Management service disputes: Similar weaknesses appeared in Decision No. PUT-013091.35/2019/PP/M.IA (PT ASI) and Decision No. PUT-010028.13/2019/PP/M.XIA (PT U-LCW), Cases 3 and 4 were rejected as the taxpayer failed the Benefit Test. Even though evidence such as administrative contracts and invoices were submitted to the court, it did not convincingly demonstrate benefits to the Indonesian entity. This weakness originated from Notes to Financial Statements (CALK) which were overly general, and lacked detail in the economic benefits of the transactions.
3. Ambiguity in partial acceptance cases: Decision No. PUT-013088.35/2019/PP/M.IA (PT ASI) indicated that the accounting evidence supported only some of the transactions. This created an information gap in the financial statements, which meant that full legal certainty could not be reached. The problem was not with the transactions themselves, but rather with the financial statements and their inability to tell a complete and understandable story.

From this, it can be concluded that accounting evidence has limited probative value in tax disputes when it is presented without adequate disclosure of the underlying transaction. Therefore, the application of PSAK 201 (formerly PSAK 1), particularly Paragraph 112 regarding notes to financial statement structure and Paragraph 117 regarding material accounting policy disclosures in the Notes to the Financial Statements (CALK), plays a critical role in demonstrating the economic substance of transactions and improving the evidentiary quality of financial reporting (DSAK IAI, 2021). Consequently, the proper application of accounting standards can strengthen taxpayers' legal position through several mechanisms:

1. Depth of Disclosure (Full Disclosure): PSAK 201 mandates that entities include extensive and detailed supplementary information in CALK. The disclosure of cross-border costs that may be subject to Article 26 Income Tax forms a narrative of evidence that supports and defends the position against tax and legal challenges.
2. Objectivity of the Benefit Test: The detailed payment of service or royalty costs from abroad makes the report more objective. This enables judges to apply the substance over form principle more transparently and objectively, based on the verified accounting information.
3. Synchronization of Evidence: The consistent application of PSAK 201 results in an alignment of the figures in the balance sheet and income statement, with supporting

documents such as contracts and Certificates of Domicile. This is necessary to minimize the risk of rejection of an appeal based on discrepancies in supporting data, as shown in several cases (e.g. PT SM), where the taxpayers lost because of a lack of integration between the tax administration and accounting.

5. CONCLUSION, IMPLICATION, AND SUGGESTION

Conclusion

This study advances the international tax and accounting literature by demonstrating that judicial consistency in cross-border disputes is fundamentally an accounting-driven evidentiary process rather than a purely legal-formal interpretation. By examining Article 26 Income Tax dispute typologies from 2021 to 2024, the findings bridge the critical gap between tax law and financial reporting, showing that the ultimate judicial outcome hinges on the depth of substantive factual review (uji materiil) and the alignment of accounting evidence with tax documentation. Theoretically, this research enriches Agency Theory within tax litigation by conceptualizing Tax Court judges as an independent monitoring mechanism designed to mitigate information asymmetry between tax authorities (principal) and taxpayers (agent). Furthermore, the study contributes to accounting theory by establishing that full compliance with financial reporting standards, specifically PSAK 201 Paragraph 112 regarding note disclosures and Paragraph 117 regarding material accounting policies, serves as an active legal safeguarding mechanism that substantiates economic reality and minimizes litigation exposure in cross-border transactions.

Implication

This suggests that legal certainty in cross-border transactions is founded on the quality of evidence. Financial statements should not be treated as documents that merely provide a record of transactions, but as documents that provide clear and consistent evidence of the economic substance of transactions. The failure to satisfy the benefit test, explain the nature of the relationships, and align the financial statements with the tax documents are the most common reasons for the negative decisions against the taxpayer. Within this framework, the effect of accounting standards has the potential to provide quality evidence through transparency, PSAK 1, and detail with improved integration of accounting and tax documents. There is potential for accounting standards to constitute a framework through which accounting standards can integrate financial reporting and judicial processes in international taxation.

Suggestion

Despite its contributions, this study has several limitations that offer avenues for future research. First, the qualitative analysis is limited to sample Tax Court decisions from 2021 to 2024, a period heavily influenced by COVID-19 hearing backlogs under various Tax Court Circular Letters (SE-01/PP/2020 through SE-14/PP/2021) and transitional adjustments ahead of Law No. 7 of 2021 (UU HPP) and digital litigation under PER-1/PP/2023 (e-Tax Court). Second, the scope does not fully incorporate the emerging policy dynamics of BEPS 2.0 and Pillar Two (Global Minimum Tax) under PMK No. 136 of 2024. Future studies are therefore encouraged to extend the observation period and adopt primary qualitative methods, such as in-depth interviews with tax judges and international tax practitioners, to evaluate how accounting evidence is weighted in post-reform cross-border litigation.

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APPENDIX
Summary of Sampled Tax Court Decisions on Cross-Border Article 26 Income Tax Disputes

Dispute Typology	Case Number	Jurisdiction	Main Tax Dispute Issue	Ratio Decidendi	Judicial Outcome
Loan Interest & Treaty Eligibility	PUT-001882. 35/2019/PP/ M.XB (PT.Bumi Sawit Permai / PT BSP)	Singapore	Recharacterization of loan interest withholding tax rate (20% domestic rate vs. DTA rate) due to missing Certificate of Domicile (SKD).	Treaty benefits were rejected for payments lacking a valid SKD. However, the court granted treaty protection for payments supported by complete SKD, payment records, and audit reports demonstrating direct linkage with the accounting records.	Fully Granted
Loan Interest & Recharacterization	1943/B/PK/PJK /2022 (PTFreeport Indonesia)	Indonesia	Fiscal reclassification of loan interest payments into disguised dividends.	The taxpayer failed to provide sufficient accounting evidence to rebut the tax authority's recharacterization of the financing arrangement.	Rejected
Management & Intra-Group Services	PUT-013094/2021/ M.IA (PT American Standard)	Singapore	Deductibility and tax treatment of intra-group management services.	The appeal was denied primarily due to administrative non-compliance in tax return reporting.	Rejected
Management & Intra-Group Services	PUT-002169/ 2022/M.XIB (PT Media Kreasindo Utama)	Singapore	Existence and substantiation of intra-group management services.	The judges applied the substance-over-form principle and accepted detailed service agreements together with consistent accounting records as evidence of genuine services.	Fully Granted

Dispute Typology	Case Number	Jurisdiction	Main Tax Dispute Issue	Ratio Decidendi	Judicial Outcome
Logistics & Administrative Services	PUT-004775/2021/ M.VIIIA (PT Soci Mas)	Singapore	Application of treaty rates on cross-border logistics and technical services.	Treaty benefits were denied because the taxpayer failed to submit essential treaty documentation, particularly the SKD (Form DGT-1).	Rejected
Logistics & Administrative Services	PUT-001070/2022/ M.XIIA (PT Damco Trucking Indonesia)	Netherlands	Entitlement to treaty benefits for cross-border logistics services.	The court granted treaty protection based on valid residency certificates, intercompany invoices, and accounting documentation consistent with group records.	Fully Granted
Income Characterization (Services vs. Dividends)	308/B/PK/PJK/ 2023 (PT Enerflex)	Australia	Recharacterization of cross-border management service fees as disguised dividends.	The taxpayer failed to demonstrate the actual economic benefits of the services, leading the court to uphold the dividend reclassification.	Rejected (Fiskus Upheld)
Income Characterization (Services vs. Dividends)	PUT-004235/ 2024/M.XVA (PTCisco Technologies)	Netherlands	Defense of service fee characterization against dividend reclassification.	The taxpayer successfully presented segmented profit and loss reports showing that the payments represented operating expenses rather than profit distributions.	Fully Granted

Dispute Typology	Case Number	Jurisdiction	Main Tax Dispute Issue	Ratio Decidendi	Judicial Outcome
Royalty Payments & Economic Benefit	PUT-003729/2021/M.IA (PT Pan Pacific Development)	Hongkong	Royalty payment deduction under Article 26.	The court rejected the appeal because the royalty agreements failed to demonstrate actual economic benefit or commercial substance.	Rejected
Royalty Payments & Economic Benefit	PUT-002294/2022/M.XA (PT Toyo Denso Indonesia)	Japan	Application of treaty benefits for patent royalty payments.	Treaty benefits were granted after the taxpayer presented accounting records and operational evidence demonstrating actual patent utilization in the manufacturing process.	Fully Granted
Low Value-Adding Services	PUT-000042.13/2023/PP/M.VA Tahun 2024 (PT Covestro Polymers Indonesia)	Multiple Jurisdictions	Substantiation of multi-jurisdictional low value-adding service charges.	The taxpayer successfully demonstrated through financial statements and accounting records that the service charges represented genuine business operating expenses.	Fully Granted